2003 Annual Report

STERLING RESOURCES LTD.

Company Profile

Sterling Resources Ltd. is a Calgary, Canada based energy company actively engaged in the exploration and development of crude oil and natural gas in selected areas of the world. The Company's strategy for achieving growth is to source and initiate international projects with the potential for larger, lower-cost reserves. High initial working interests are taken where possible, and financial exposure and risk are managed by obtaining industry participations. The Company currently has landholdings in three countries, the United Kingdom offshore and onshore, Romania offshore and onshore, and France. The major focus areas, the United Kingdom and Romania, both have established hydrocarbon basins, extensive infrastructure and excellent contractual and fiscal terms. The common shares of Sterling Resources Ltd. trade on the TSX Venture Exchange under the symbol SLG.

Annual Meeting

An Annual General and Special Meeting of the Shareholders of Sterling Resources Ltd. will be held on Tuesday, June 15, 2004 at 10:00 a.m. (Calgary time) in the Cardium Room of the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta, Canada. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Computershare Trust Company of Canada at their earliest convenience.

Contents

Message to Shareholders

The year 2003 saw Sterling successfully enter the offshore UK with the award of two licenses, complete a 110 kilometer seismic program onshore Romania that produced positive results, participate in the drilling of two exploration wells onshore UK, both of which discovered oil and obtain planning approval to drill two gas prospects in the onshore UK Cleveland Basin.

Sterling's successful entry into the UK offshore was a big step forward in its growth plan. The entry was made possible through the recent introduction by the UK Department of Trade and Industry of "Promote Licenses" and Fallow field initiatives. Promote Licenses provide opportunities for smaller companies to enter and assess the prospectivity of acreage without the stringent and expensive requirements of traditional offshore licenses. The offshore has much larger oil and gas resource potential than onshore, and while the size of the prospects may be small for the major oil companies, they are potential company makers for Sterling. In addition to a large number of prospects, there is an excellent geological and geophysical database, existing infrastructure for early and cost efficient development as well as very good fiscal terms. Sterling's management has extensive knowledge and experience in the offshore, which makes the entry a logical expansion of its UK core area. The strategy is to expand the offshore assets and Sterling will be participating in the next round of Promote Licenses which is scheduled to close in June 2004. Several possible application areas have been identified and are currently under review.

The results of the 110 kilometer infill seismic program on the Craiova concession onshore Romania were very encouraging. The program, completed in September was conducted over a focus area located in the northeast portion of this large, 1.5 million acre concession and close to the large producing fields Bradesti and Malu Mare. Interpretation and mapping has identified several large features in both the Triassic and the shallower Miocene which are analogous to nearby producing fields. The risks are principally reservoir and migration because of the very few deep wells drilled on the concession in the past. Additional processing is being undertaken prior to choosing the first location and drilling is scheduled for the early summer. This northern focus area covers only a small portion of the concession.

Onshore UK, Sterling farmed out the drilling costs of both exploration wells, Avington-2 and Waddock Cross-2, in line with its strategy to bring in industry partners to share the technical and financial risk of exploration. Although both wells discovered oil, the test results at Avington have been disappointing due to higher than expected water production, although this is not uncommon in some of the wells in the nearby Stockbridge field. At Waddock Cross an extended production test of the lower zone will be carried out. Development of the discoveries will depend on the results of continued testing. Sterling is planning to bring in an industry partner to share the cost of drilling the two gas prospects in the Cleveland Basin and both will likely be drilled with the same rig. For reasons associated with the planning approval, the wells will likely be drilled in the fall.

To fund ongoing work programs, Sterling raised $1.8 million through the issue of 7.2 million units (net of commissions) at $0.25 per unit by private placement. Each unit consisted of one common share and one common share purchase warrant.

Sterling was very pleased to have Mr. David Powell join the Board of Directors effective January 1, 2004. He has had an outstanding career in the international petroleum industry and brings a wealth of knowledge and experience to Sterling. Mr. Powell replaces Mr. Robert Cook. We wish to thank Mr. Cook for the contributions he made to Sterling during his time on the Board.

Sterling's growth strategy of prospect generation in known hydrocarbon basins, undertaking the initial acquisition and geological and geophysical cost, maintaining high initial working interests where possible and farming out the more expensive exploration drilling is working well and has produced results. Sterling has assembled an acreage portfolio of over 2.2 million net acres (3.6 million gross acres), undertaken initial geological and geophysical activities and participated in successful exploration through farmout. This has all been accomplished for a net cost of just over $9 million Canadian. The portfolio is continuing to produce drillable prospects, some of which are potential company makers for Sterling. With additional wells now ready to drill onshore UK and Romania, prospects offshore Romania ready to drill when conditions permit, plus work to date on our first offshore UK license, 210/30-25b, showing positive results, the potential for significant increases in shareholder value is most promising. While our strategy is one that takes longer to execute, we believe the leverage to successful exploration is worth the time required.

The Board wishes to thank the shareholders for their continued interest, patience and support.

On behalf of the Board of Directors

Robert G. Welty	Stewart G. Gibson
Chairman & Chief Executive Officer	President & Chief Operating Officer

March 31, 2004

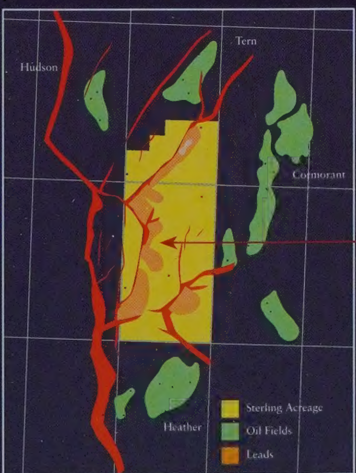
Operations Review

United Kingdom Offshore

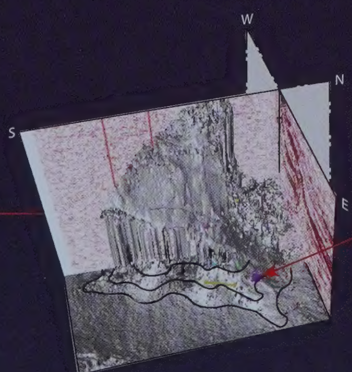
Sterling entered the United Kingdom offshore in October 2003 when it, together with its joint venture partners, was awarded two North Sea "Promote Licenses". The Promote License concept, introduced in 2003 by the UK Department of Trade and Industry (DTI), enables smaller companies to enter the prolific offshore basins without the more stringent and expensive requirements of the conventional licenses. Promote License fees are less and there is no drilling commitment in the first two-year period. The areas Sterling selected for application had prospectivity, available accessible data, nearby existing proven production and access to infrastructure. In addition the available seismic data can be enhanced by reprocessing and in some cases can be supplemented by purchase of 2D and 3D seismic surveys.

License P1064 covers Blocks 210/30 and 210/25b in the Northern North Sea. Sterling has a 60% working interest and is the operator. Sterling is in partnership with Troy-Ikoda Limited, one of the UK's leading technical consulting groups. Fields producing from the Brent formation surround the Blocks. Work completed to date, based on existing 2D seismic, indicates two Brent leads on Block 210/30 which are as yet undrilled. In addition, the first well on the Block found thin sands in the Upper Jurassic which had oil shows. Moving westwards, the Upper Jurassic section thickens significantly towards a major north – south trending fault, providing the potential for the development of thicker sand bodies in several areas near to the fault. The concept is analogous to the Brae and Scapa oilfields. Sterling will be purchasing existing 1998 3D seismic coverage over most of Block 210/30. Early review of the 3D seismic data shows it to be of good quality and, in addition to substantiating the Brent and Upper Jurassic plays, also indicates potential for shallower Tertiary channel developments. Following purchase of this data, a complete

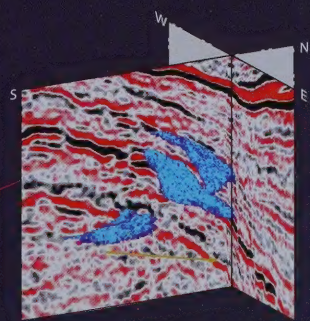
Northern North Sea – Blocks 210/30 and 210/25b



Initial 3D Images from Schlumberger "Inside Reality" software



Elongate Brent Closure against main N – S Trending Fault



NW – SE High Amplitude Bodies at Upper Jurassic Level

technical review of the license should be completed by mid-year at which time further activity will be determined.

License P1140 covers Blocks 47/1 and 47/2b in the Southern North Sea. Sterling acquired a 40% working interest. The Blocks are located to the north and west of the Rough and York fields and to the east of Sterling's onshore PEDL 071 license. Early work has involved locating and evaluating the existing 2D seismic and well data, the target being Rotliegendes traps on trend with Rough and York. Sterling has farmed out the first year's work program activity and will retain a 20% working interest in the license.

Following the success in the 21st License Round, Sterling has acquired access to a significant North Sea database and plans are in place to make additional applications for Promote Licenses in the 22nd Round, which is scheduled to close in early June 2004.

Sterling is also investigating several available opportunities that contain existing discoveries.

United Kingdom Onshore

During 2003, Sterling drilled wells in two of the three geological basins in which it holds interests onshore UK. Both were farmed out and both found oil columns close to prediction. In addition, necessary planning permission has been granted for two wells in the third basin with drilling scheduled for 2004.

In the Weald Basin on License PEDL 070, the Avington-2 well was drilled in August and discovered oil within the Great Oolite reservoir. The well came in close to prognosis with the top of the reservoir encountered 46 meters up dip from the untested oil column found in the Avington-1 well drilled in 1987. Prior to going horizontal, a short-term test of rates up to 250 barrels of oil per day confirmed the presence of hydrocarbons. The horizontal section was drilled under balanced and by the end of the horizontal section the well was flowing at rates up to 700 barrels of oil per day. The initial sampling indicated a crude oil of

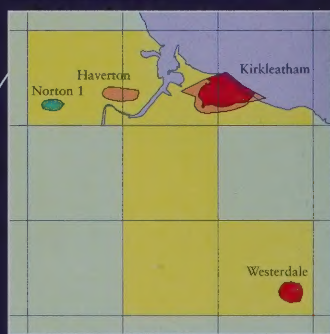
United Kingdom Onshore Activity

2003 DRILLING

AVINGTON-2 WELL
- Pilot hole tested oil
- Drilled 530 meter horizontal section
- Well flowed at 700 barrels of oil per day
- High water cut during extended test
- Additional drilling planned

WADDOCK CROSS-2 WELL
- Oil column in Bridport reservoir
- Lower Bridport Unit 2
  - Excellent productivity
  - Oil rate increasing during short test
  - Plan for extended production test
- Upper Bridport Unit 3
  - Possible formation damage during testing
  - Analysis being conducted

2004 DRILLING



KIRKLEATHAM WELL
- Gas prospect
- Gas shows in older wells

WESTERDALE WELL
- Gas prospect
- Up-dip from previous gas discovery

38 degrees API. Following completion, the well was put on long term test and higher than predicted water production was observed. Total fluid production has been in the 350 to 400 barrels per day range with water cuts in excess of 80%. Although disappointing, this early well performance is similar to some of the poorer wells in the nearby Stockbridge oilfield. Additional well activity at Avington is under consideration. Sterling retains an 8.33% interest in the license having farmed out most of its share of the well costs. Sterling also holds a 28.34% interest in adjacent Licenses PEDL 069 and PEDL 110. Further activity on the adjacent licenses awaits results at Avington.

On License PL 090 in the Wessex Basin onshore UK, the Waddock Cross-2 well spudded December 13, 2003. The well targeted the Bridport Sandstone reservoir at a prognosed depth of 700 meters. The Waddock Cross-1 well, drilled in 1982, encountered a 21-meter oil column but was plugged and abandoned after testing sub-commercial flow rates. Waddock Cross-2 was drilled following re-evaluation of the test results and petrophysics from the first well, together with revised mapping over the structure, and had a subsurface target in an up dip location to the southeast. The main objectives of the well were to obtain reliable oil properties and establish productivity in the Bridport Unit 2 reservoir. Both objectives were met during a short test on Unit 2 which, after clean up, demonstrated excellent reservoir productivity from a 2 meter section just above the oil water contact. Towards the end of the test reported data indicates production was in excess of 100 barrels of oil per day. Following review of the test results by outside consultants, plans to complete the well for an extended test on Unit 2 are under consideration. A second drill stem test, over a shallower 13-meter interval indicated formation damage may have occurred. During further testing on Unit 2, stimulation of the damaged upper Unit 3 will also be considered. Waddock Cross is the first of the Wessex High wells to be drilled to evaluate the Bridport and Sherwood Sandstone reservoirs as they trend westwards from the large Wytch Farm oilfield. Sterling retains an 18.75% working interest in the license after farming out its share of the well costs.

In PEDL 068 in the Cleveland Basin, planning approval has been obtained to drill the Kirkleatham and Westerdale prospects – both of which have older wells which tested gas. Both locations are based on fairly recent seismic and the wells are targeting gas prospects in Permian Zechstein Carbonate reservoirs in locations up-dip from older wells. Sterling has an 80% working interest and is the operator. Consistent with its strategy, Sterling plans to bring in industry partners to cover a portion of the drilling costs. Operations at Westerdale are restricted to the October to March period and it is currently planned to drill both wells back to back in Q4 2004. In PEDL 071, sizeable prospects mapped within the Rotliegendes fairway are under consideration for 3D surveys to refine the geological interpretation.

Romania Offshore

Sterling has a 20% working interest in a Production Sharing Contract ("PSC") covering two offshore Blocks in the Black Sea. The PSC covers 1.1 million acres and is comprised of the Pelican Block XIII to the north and the Midia Block XV to the south. A small amount of reprocessing on the seismic data across the large Midia South East prospect has been commissioned to enable drilling, given the possible availability of a semi-submersible drilling rig scheduled to be brought into the Black Sea by another operator later in 2004. Additional evaluation of the possibility of producing the existing Doina gas discovery by tying back to a nearby producing field operated by Petrom, the national oil and gas company in Romania, awaits the finalization of the privatization of Petrom currently scheduled for mid year.

Romania Onshore

Onshore Romania, Sterling completed a 110 kilometer seismic program in the northern focus area of the 1.5 million acre South Craiova concession. Designed to gather data across a large positive geochemical anomaly, the

new seismic is of excellent quality and provides detail below the base Tertiary Unconformity which older data was lacking. The new survey shows several large structural noses on the western edge of the Bailesti Depression. Trapped against a major fault system which forms the Western boundary of the depression they hold potential in the Triassic, Sarmatian (Miocene) and shallower sands – all of which produce in fields just to the north. The Triassic target is oil and shallower targets would be gas, in some cases up-dip from older wells with gas shows. Gas prices within Romania have increased significantly since the concession was first acquired. Final processing of the data will be completed in early 2004 to allow drilling of the first well mid year. Several local drilling companies have been contacted and meet capability and cost expectations.

France Onshore

Onshore France on the St. Laurent License (Sterling 42.85%), reprocessing of existing seismic and subsequent mapping around the 1975 Grenade heavy oil discovery (10 to 13 degrees API) has confirmed the potential for significant oil in place. The St. Laurent License covers some 294,000 acres and is located 20 kilometers northwest of the giant Lacq field. Early 2004 activity will focus on engineering studies to evaluate recovery and appraisal alternatives. Activity on larger and deeper exploration targets on the license will follow the work on Grenade, as well as on drilling planned by others on a neighbouring block.

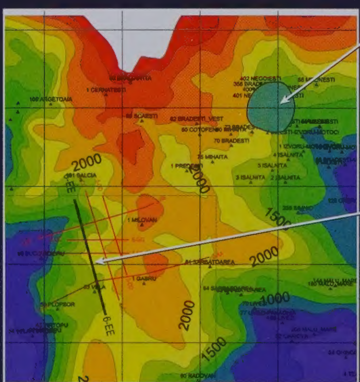
Denmark Onshore

During the second quarter of 2003, Sterling relinquished its remaining Denmark property, License 1/01, after review of the results of the recent geological work program.

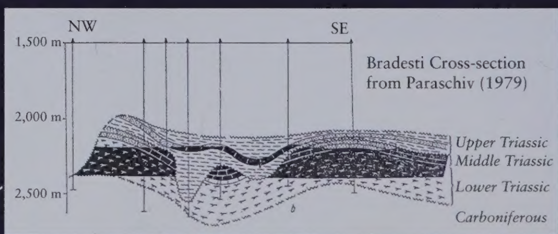
Health, Safety and Environment

Sterling Resources is committed to conducting its operations in an environmentally sensitive manner and to safeguard the health and welfare of its employees, contractors, suppliers and the public.

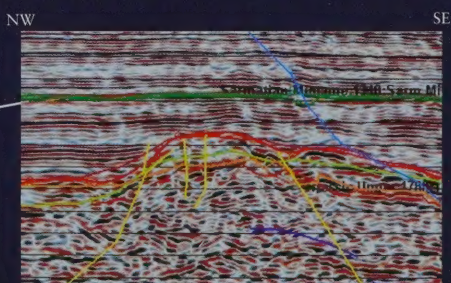
South Craiova – Northern Focus Area



Bailesti Depression with 2003 seismic grid



Bradesti Triassic Accumulation – Circa 100 mmbbls



2003 Seismic line 6 – Faulted Triassic Structure

Management's Discussion and Analysis

March 31, 2004

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2003 and 2002.

The Company's financial statements and the financial data included in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All financial amounts are expressed in Canadian dollars, except as otherwise indicated.

Forward-looking Statements

Certain statements contained in the MD&A are forward-looking statements. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas;
- risks and uncertainties involving geology of oil and gas deposits;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- uncertainties as to the availability and cost of financing;
- risks in conducting foreign operations; and
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld.

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

Overview

Sterling Resources Ltd. is a Calgary, Canada based energy company actively engaged in the exploration and development of crude oil and natural gas in selected areas of the world. The Company's strategy for achieving growth is to source and initiate international projects with the potential for larger, lower-cost reserves. High initial working interests are taken where possible, and financial exposure and risk are managed by obtaining industry participations. Sterling is in the early phase of its strategic growth plan. The majority of the Company's efforts and expenditures have been focused on assessing prospects, obtaining exploration rights and gathering and interpreting seismic and geological data. If an exploration right has been obtained or awarded, these expenditures are categorized as petroleum and natural gas properties and capitalized in country-by-country centers. If no right has been obtained these expenditures are categorized as project development costs and expensed. Current landholdings are focused in the United Kingdom, Romania and France. Sterling is listed on the TSX Venture Exchange under the trading symbol SLG.

Selected Annual Consolidated Financial Information

The selected annual consolidated financial information presented below should be read in conjunction with the consolidated financial statements.

	Years ended December 31		
	2003	2002	2001
Revenues, net of royalties	Nil	Nil	Nil
Net loss	$ 1,156,753	$ 678,440	$ 638,178
per share – basic and fully diluted	$ (0.06)	$ (0.04)	$ (0.04)
Total assets	$ 9,349,363	$ 8,871,661	$ 8,550,250
Shareholders' equity	$14,052,084	$12,382,568	$11,612,046
Common shares outstanding			
basic	24,041,967	16,675,967	14,981,967
fully diluted (1)	34,743,467	21,763,607	18,055,607
Long term debt	Nil	Nil	Nil

NOTE: (1) The number of shares representing company ownership, including common shares and current conversion or exercise value of the stock options and warrants.

Discussion of Operations and Financial Results

For the year ended December 31, 2003, the Company recorded a loss of $1,156,753 or $0.06 per share, compared with a loss of $678,440 or $0.04 per share for the year ended December 31, 2002 and a net loss of $638,178 or $0.04 per share for the year ended December 31, 2001. The loss for the year ended December 31, 2003 includes a write off of $553,107 being costs associated with the Company's licenses in Denmark, which were relinquished.

There is no material revenue at the present time. Sterling participated in an oil discovery, Avington-2, onshore UK in 2003. An extended well test is now being conducted and revenues and expenses during this period are being offset against capital expenditures on the license.

Corporate administrative expenses were $574,308 compared with $580,199 in 2002 and $562,208 in December 31, 2001.

Exploration project costs were $553,107 in 2003 and represented the write off of all costs of activities in Denmark mentioned above. Costs in this category were $87,295 and $149,583 for 2002 and 2001, respectively, which represented project expenses of investigating potential new areas of activity.

The Company adopted the intrinsic value method of accounting for stock options as of January 1, 2002 and as at December 31, 2003 adopted the new Canadian Institute of Chartered Accountants standard for reporting. As a result a stock based compensation expense of $29,710 for 2003 and $9,799 for 2002 has been recorded.

Petroleum Properties and Capital Expenditures

Sterling had invested $9,227,591 in its oil and gas properties to December 31, 2003 and as of that date had interests in petroleum licenses and contracts as set out on the following schedule.

	Gross Acres	Net Acres
Onshore United Kingdom	476,290	188,650
Offshore United Kingdom	159,305	61,810
Onshore Romania	1,545,000	1,545,000
Offshore Romania	1,100,000	220,000
France	294,049	126,000
TOTAL	3,574,644	2,141,460

Geological and geophysical work on this acreage has to date resulted in many prospects and leads, and several prospects have been brought to the drillable stage. During the period 2001 to 2003 four wells were drilled, three wells onshore UK, two of which discovered oil, and one well offshore Romania which successfully appraised a discovery. The drilling costs of the three wells onshore UK were almost entirely covered by bringing in industry partners who paid for Sterling's share of drilling costs in return for earning a portion of Sterling's working interest in the petroleum licenses.

Capital expenditures on oil and gas activities were $1,382,532 for 2003, $870,399 for 2002 and $2,348,537 for 2001.

Expenditures in 2003 were primarily comprised of $364,841 in the United Kingdom primarily for the evaluation of geological data, $926,016 onshore Romania to conduct a seismic program and geological work, and $91,675 in other international areas to fulfill license obligations and to evaluate prospects.

Expenditures in 2002 were primarily comprised of $323,647 in the United Kingdom for the evaluation of geological data, $282,576 onshore Romania for geological evaluation of the properties, and $264,506 in other international areas to fulfill license obligations and to evaluate prospects.

In 2001 expenditures were primarily comprised of $678,300 in the United Kingdom for the evaluation of geological data, $236,000 onshore Romania to evaluate the properties, $1,298,700 offshore Romania for drilling the Doina-3 well, and $135,500 incurred in other international areas to fulfill license obligations and to evaluate prospects.

In line with its strategy, Sterling has farmed out the costs of most of the wells it has participated in to date.

Financing, Liquidity and Solvency

As at December 31, 2002 Sterling had a working capital deficiency of $41,473. In June 2003 an amount of $1.8 million ($1.67 million after issue expense) was raised through the issue of 7,200,000 units (net of commissions) at $0.25 per unit. Each unit consisted of one common share and one common share purchase warrant exercisable at a price of $0.30 for the first year and at $0.35 for the second year. During the year 2003, Sterling incurred capital expenditures on its oil and gas properties of $1.38 million and corporate administrative expenses of $574,000. At December 31, 2003, there was a working capital deficit of $324,000. Also during the year Sterling negotiated a revolving demand bank loan facility of $250,000, which was guaranteed by a company owned by an officer and director. An amount of $75,000 was drawn on this facility as of December 31, 2003.

As is typical of companies in Sterling's stage, future exploration and development activities will require substantial amounts of additional capital which the Company may raise through debt or equity financing and farming out of partial interests in certain properties. Financings and farm outs are subject to prevailing market conditions at the time. Successful completion of financings and farm outs of partial interests are required for Sterling to carry out its activities on each of its projects. Sterling may also raise capital by monetization of certain of its existing assets.

There are no material commitments on oil and gas properties other than to undertake a 140 km seismic program on the onshore Romania concession prior to June 24, 2004, following which Sterling can elect to enter the third exploration phase which would extend from that date to December 24, 2005, and would require the drilling of one 2,500 meter well. The cost of the seismic program is estimated at US $500,000. Commitments on its offshore Romanian contract areas have been suspended with the agreement of the Romanian Government pending resolution of the Romanian/Ukrainian maritime boundary delineation. All licenses in the UK and France have only minor expenditure commitments for geological and geophysical activities.

Future Plans

Sterling plans to continue with its growth strategy. Over the next two years the major initiatives will be to:

- Develop the existing discoveries at Avington (onshore UK) and Doina (offshore Romania). The Doina gas discovery offshore Romania awaits drilling of further nearby prospects on the Block and the privatization of Petrom, the Romanian national oil company, which is scheduled for mid 2004.
- Drill at least six exploration wells on the key prospects, which have been matured within the currently held acreage. It is intended to continue the successful farm out strategy adopted to date for the majority of these wells.

- Continue geological and geophysical work to evaluate the many other prospects and leads that exist on the current licenses, in addition to those identified in the drilling program. In particular, this work will focus on offshore UK and both onshore and offshore Romania, where significant additional prospectivity exists.
- Acquire more blocks offshore UK North Sea in the 22nd Promote License Round in June 2004, and pursue "Fallow Blocks" and "Fallow Discoveries". Generally, these are license areas that have been so designated by the Department of Trade and Industry where there has been no drilling or dedicated seismic or other significant activity for four years.
- Enter a new focus area. Management has significant experience in North Africa and the Middle East, and given the large reserve potential in these areas, they are part of the current screening exercise.

Estimated minimum capital expenditures and general administrative expenditures for 2004 are $2 million prior to planned farmouts on certain properties, which, if successful, would decrease the financial requirement.

For the past four years, Sterling's strategy for growth and financing has proved to be a workable one. Furthermore, during this time the Company has increased the geological prospectivity of many of its lands and accordingly plans to increase the amount of drilling activity over the next two years. Successful drilling would result in production and cash flow with which to finance further activity.

Business Risks

The international oil and gas industry is exposed to a variety of risks which include the uncertainty of finding new reserves, developing those reserves and finding markets for them, commodity price fluctuations, interest and exchange rates, and changes in government regulations. The oil industry is intensely competitive and Sterling must compete against companies that have larger technical and financial resources.

Sterling works to mitigate these risks by employing highly skilled personnel, focusing exploration efforts in areas where the Company has existing knowledge and expertise and access to such expertise, using current technology to enhance methods and controlling costs. The Company maintains a corporate insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts and other operating accidents and disruptions.

The oil and gas industry is subject to extensive and varying environmental regulations imposed by governments related to the protection of the environment. Sterling is committed to operate safely in an environmentally sensitive manner and to safeguard the health and welfare of its employees, contractors, suppliers and the public, in every area of operation.

Sterling reports to its shareholders in Canadian dollars. Fluctuations in the relationship of the Canadian dollar against the US dollar or UK pound sterling could adversely or favorably impact the value of Sterling's assets and liabilities in Canadian dollars.

Sterling has a large exploration portfolio and a number of undrilled prospects. Its ability to grow profitably will depend on its ability to drill successfully and develop these properties, as well as to obtain additional prospects.

Outstanding Shares

As at March 31, 2004 there were 24,078,967 common shares outstanding and a further 1,725,000 common shares reserved for the issuance of stock options. In addition, warrants attached to common share issues completed in 2002 reserve 1,694,000 common shares for issuance at $0.60 per share until July 31, 2004, and in 2003 reserve 7,328,000 common shares for issuance at $0.30 per share until June 6 and 16, 2004 and at $0.35 per share until June 6, and 16, 2005.

Selected Quarterly Information

The tables below present selected unaudited quarterly consolidated financial information relating to the Company for 2003 and 2002.

	2003			
	Q4	Q3	Q2	Q1
Expenses				
General and administrative				
corporate	$ 169,214	$ 165,986	$ 147,108	$ 92,000
stock-based compensation	$ 11,789	$ 12,033	$ 3,263	$ 2,625
Write-off of petroleum and natural gas properties	$ (2,764)	$ –	$ 555,871	$ –
Depreciation	$ 1,095	$ 1,143	$ 1,177	$ 1,177
Other income				
Interest	$ 1,062	$ 2,649	$ 842	$ 411
Net loss	$ 178,272	$ 176,513	$ 706,577	$ 95,391
Net loss per common share	$ 0.01	$ 0.01	$ 0.04	$ 0.01

	2002			
	Q4	Q3	Q2	Q1
Expenses				
General and administrative				
corporate	$ 181,326	$ 94,053	$ 170,732	$ 134,088
stock-based compensation	$ 2,924	$ 2,680	$ 2,651	$ 1,544
Write-off of petroleum and natural gas properties	$ 37,502	$ 30,225	$ 5,306	$ 14,262
Depreciation	$ 1,525	$ 1,850	$ 1,692	$ 1,672
Other income				
Interest	$ 2,239	$ 1,787	$ 477	$ 1,089
Net loss	$ 221,038	$ 127,021	$ 179,904	$ 150,477
Net loss per common share	$ 0.01	$ 0.01	$ 0.01	$ 0.01

Note: The quarterly results above reflect the adoption of the new Canadian Institute of Chartered Accountants standard for reporting stock-based compensation and hence differ from quarterly financial results originally reported.

Additional information about Sterling Resources Ltd. and its business activities, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

Management's Report

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting policies outlined in the notes to the consolidated financial statements. Other financial information appearing throughout the report is presented on a basis consistent with the consolidated financial statements.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the presentation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Accountants, has been engaged, as approved by the shareholders, to examine the consolidated financial statements in accordance with auditing standards generally accepted in Canada and to provide an independent professional opinion.

The Audit Committee and the Board of Directors have reviewed the consolidated financial statements with management and with Ernst & Young LLP. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Robert G. Welty	Sherry L. Cremer
Chairman & Chief Executive Officer	Treasurer & Corporate Secretary

Auditors' Report

To the Shareholders of Sterling Resources Ltd.

We have audited the consolidated balance sheets of Sterling Resources Ltd. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada	
February 27, 2004	Chartered Accountants

Consolidated Balance Sheets

(See Basis of Presentation – Note 1)

As at December 31

	2003	2002
	$	$
		(restated – see note 3)
Assets		
Current		
Cash and short term investments *[note 5]*	**17,227**	284,674
Accounts receivable and other	**84,390**	49,075
Due from officers *[note 6]*	**–**	115,000
	101,617	448,749
Capital assets *[note 7]*		
Petroleum and natural gas properties and equipment	**9,227,590**	8,398,166
Furniture and fixtures	**20,155**	24,746
	9,247,745	8,422,912
	9,349,362	8,871,661
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness *[note 8]*	**75,000**	–
Accounts payable and accrued liabilities	**350,451**	490,222
	425,451	490,222
Commitments *[note 11]*		
Shareholders' equity		
Share capital *[note 10]*	**14,052,083**	12,382,568
Contributed surplus *[note 3]*	**105,988**	76,278
Deficit	**(5,234,160)**	(4,077,407)
	8,923,911	8,381,439
	9,349,362	8,871,661

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statements of Operations and Deficit

For the years ended December 31

	2003	2002
	$	$
		(restated – see note 3)
EXPENSES		
General and administrative		
– corporate	**574,308**	580,199
– stock-based compensation expense *[note 10]*	**29,710**	9,799
Write-off of petroleum and natural gas properties *[note 7]*	**553,107**	87,295
Depreciation	**4,592**	6,739
	1,161,717	684,032
OTHER INCOME		
Interest	**4,964**	5,592
Net loss for the year *[note 9]*	**1,156,753**	678,440
Deficit, beginning of year	**4,077,407**	3,398,967
Deficit, end of year	**5,234,160**	4,077,407
Net loss per common share *[note 4]*		
Basic	**0.06**	0.04
Diluted	**0.06**	0.04

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31

	2003	2002
	$	$
		(restated – see note 3)
OPERATING ACTIVITIES		
Net loss for the year	**(1,156,753)**	(678,440)
Add items not affecting cash:		
Write-off of petroleum and natural gas properties *[note 7]*	**553,107**	29,747
Stock-based compensation expense	**29,710**	9,799
Depreciation	**4,592**	6,739
Cash flow used in operations	**(569,344)**	(632,155)
Change in non-cash working capital	**14,914**	259,606
Cash used in operating activities	**(554,430)**	(372,549)
INVESTING ACTIVITIES		
Petroleum and natural gas properties and equipment additions	**(1,382,532)**	(870,399)
Furniture and fixture additions	**–**	(2,452)
Cash used in investing activities	(1,382,532)	(872,851)
FINANCING ACTIVITIES		
Issue of common shares, net of share issue costs	**1,669,515**	770,522
Decrease in due from officers	**–**	125,000
Cash provided by financing activities	1,669,515	895,522
Decrease in cash	(267,447)	(349,878)
Cash and short term investments, beginning of year	284,674	634,552
Cash and short term investments, end of year	17,227	284,674

See accompanying notes

December 31, 2003 and 2002

1. Description of Business and Basis of Presentation

Sterling Resources Ltd. (the "Company") is a publicly traded energy company engaged in the exploration, development and production of crude oil and natural gas in selected areas of the world.

Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which contemplates that the Company will continue its operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant operating losses and has a working capital deficiency of $323,834 as at December 31, 2003 (2002 – $41,473). The Company will need to raise additional capital or achieve profitable operations to continue in the normal course of business. The outcome of these matters cannot be predicted at this time.

The consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary if the Company is unable to continue as a going concern.

2. Significant accounting policies

Consolidation and investments

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Sterling Resources (UK) Ltd. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas properties and equipment are capitalized in cost centres on a country-by-country basis. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals, and costs of drilling and equipping productive and nonproductive wells.

All cost centers are in the pre-development stage and as such the costs in each centre are not subject to depletion. An assessment is performed at every reporting date to determine whether the aggregate net costs in each pre-development stage cost center are recoverable. Costs which are unlikely to be recovered are written off. The recovery of the costs incurred to date is ultimately dependent upon discovering commercial quantities of hydrocarbons. The likelihood of such a discovery is not determinable at this time.

Furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at an annual rate of 30%.

Joint operations

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Foreign currency translation

Operations in foreign countries are translated using the temporal method, in which foreign currency denominated monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses are included in the consolidated statement of operations.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. Future income taxes are measured using income tax rates expected to apply in the years in which differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantially enacted.

Stock options

Under the Company's stock option plan, options to purchase common shares are granted to directors, officers, employees and consultants at current market prices. Options issued by the Company are accounted for in accordance with the fair value method of accounting for stock-based compensation, and as such the cost of the options is charged to operations over the vesting period, with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value of the options at the grant date determined using a Black-Scholes options pricing model.

Measurement uncertainty

The amounts recorded for depreciation of furniture and fixtures and the allowance for doubtful accounts are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of changes in such estimates in future periods could be material.

3. Change in Accounting Policy

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") on accounting for stock-based compensation. As permitted by this new pronouncement, the Company has applied this change retroactively for grants awarded after January 1, 2002, and restated the prior year amount to conform to this new form of disclosure using the fair value method of accounting for stock options granted to directors, officers, employees and consultants. Stock-based compensation is recorded in the statement of operations as a separate expense for all options granted on or after January 1, 2002, with a corresponding increase recorded as contributed surplus.

Compensation expense for options granted is based on the estimated fair values at the time of grant as determined using the Black-Scholes option pricing model and the expense is recognized over the vesting period of the options. Accordingly a charge of $29,710 and $9,799 was made to 2003 and 2002 income, respectively.

Previously, the Company followed the intrinsic value method of recognizing stock-based compensation. Under this method, no compensation expense was recorded if the exercise price of stock options was equivalent to the market value of the Company's stock at the date of grant.

4. Earnings Per Share

The Company follows the treasury stock method for the computation of fully diluted per share amounts. Under this method, the diluted weighted average number of common shares is calculated assuming the proceeds from the exercise of dilutive securities are used to purchase common shares at the average market price. The effect of the options outstanding using the treasury method would not be dilutive for the years ended December 31, 2003 and 2002.

Net loss per share is calculated based on net loss as the numerator in the calculation and the weighted average number of shares issued and outstanding during the year ended December 31, 2003 of 20,784,189 (2002 – 15,965,879) as the denominator.

5. Cash and short term investments

Cash and short term investments includes $nil (2002 – $185,000) of bankers' acceptances with maturities of less than 90 days, bearing interest at 2.15% in 2002.

6. Related party transactions

During 1999, the Company loaned $315,000 to an officer of the Company for purposes of acquiring common shares in the Company. During 2001, the officer repaid $200,000 and in 2003 the balance of the loan was repaid.

During 2003, the Company entered into a revolving demand credit facility agreement with the Royal Bank of Canada. In order to obtain this financing, the facility was guaranteed by a company owned by an officer and director of the Company.

The above transactions were recorded at their exchange amount and were in the normal course of operations.

7. Capital Assets

(a) Petroleum and natural gas properties and equipment

	2003 $	2002 $
Romanian oil and gas properties	5,895,394	4,969,380
U.K. oil and gas properties	3,289,058	2,924,215
Other	43,139	504,571
	9,227,591	8,398,166

No general and administrative costs were capitalized in 2003 or 2002.

During the year ended December 31, 2003, the Company wrote-off $553,107 (2002 – $87,295), representing all of its petroleum and natural gas properties in Denmark which management determined would not provide benefit to the Company in the future, and which the Company was no longer interested in developing.

In order for the Company to maintain its working interests in its oil and gas properties in the pre-development stage, the Company has commitments to complete various seismic, geological, geophysical and other exploration work programs, none of which are of a material amount except those disclosed in note 11. The continuation of this work is dependent upon the ability of the Company to obtain continued financing and/or farm out any of its existing working interests.

(b) Furniture and fixtures

	2003 $	2002 $
Furniture and fixtures	72,642	72,642
Less accumulated depreciation	(52,487)	(47,896)
	20,155	24,746

8. Bank indebtedness

The Company has a revolving demand credit facility available up to $250,000, of which $75,000 was drawn as at December 31, 2003. This facility bears interest at the Royal Bank of Canada prime lending rate plus 0.25%, or 4.8%, and is guaranteed by a shareholder as discussed in note 6.

9. Income taxes

Income taxes differ from the amounts that would be obtained by applying the Canadian statutory income tax rate to the loss before income taxes as follows:

	2003 $	2002 $
Computed income taxes (recovery) at the statutory rate of 40.75% (2002 – 42.24%)	(471,377)	(286,573)
Tax rate differential on foreign operations	6,845	42,347
Tax benefit of losses not recognized	452,425	240,087
Stock-based compensation	12,107	4,139
	–	–

At December 31, 2003, the Company has the following approximate balances available to be claimed against future income for tax purposes:

	$
Undepreciated capital cost	370,000
Canadian exploration expenditures	228,000
Canadian development expenditures	500,000
Canadian oil and gas property expenditures	269,000
United Kingdom deductible expenditures	5,570,000
Foreign exploration and development expenditures	3,806,000
Undeducted share issue costs	97,000

As well, as at December 31, 2003, the Company had the following approximate non-capital losses available to reduce future Canadian taxable income expiring as follows:

	$
2004	402,000
2006	129,000
2007	770,000
2008	392,000
2009	237,000
2010	205,000
Total	2,135,000

The Company also has subsidiary UK tax losses carried forward of approximately $1,375,000 (2002 – $1,049,000), which are not subject to expiry. The benefit of these losses has not been recognized in these financial statements.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. As at December 31, 2003 and 2002, the Company has recognized a full valuation

allowance against a future income tax asset arising from tax pools in excess of the net book value of capital assets, share issue costs and non-capital losses as follows:

	2003	2002
	$	$
Tax pools in excess of net book value of capital assets	547,724	114,096
Share issue costs	33,704	58,978
Domestic and foreign non-capital losses	1,289,845	1,522,951
	1,871,273	1,696,025
Less valuation allowance	(1,871,273)	(1,696,025)
Future tax asset	–	–

10. Share capital

a) Authorized

Unlimited common shares without nominal or par value

b) Issued

	Number of Shares	Amount $
Common shares		
Balance, December 31, 2001	14,981,967	11,612,046
Issued for cash – private placement	1,694,000	847,000
Share issue costs	–	(76,478)
Balance, December 31, 2002	16,675,967	12,382,568
Issued for cash – private placement	7,365,500	1,841,375
Share issue costs	–	(171,859)
Balance, December 31, 2003	24,041,467	14,052,084

c) Stock options

The Company has established a stock option plan whereby the Company may grant options to its directors, officers, employees and consultants for up to 2,200,000 common shares. The exercise price of each option equals the market price of the Company's shares on the date of the grant less any applicable discount approved by the Board of Directors and the TSX Venture Exchange. The option's maximum term is five years, with the minimum vesting period to be 18 months. Stock options currently issued vest over the initial three years. The following is a continuity of outstanding stock options:

	2003		2002	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Opening balance	1,007,500	0.47	932,500	0.59
Granted	655,000	0.36	350,000	0.36
Cancelled/Expired	(20,000)	(0.30)	(275,000)	(0.75)
Ending balance	1,642,500	0.43	1,007,500	0.47

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2003:

Exercise Price	Number Outstanding December 31, 2003	Expiry Date	Number Exercisable December 31, 2003
$0.30	10,000	February 27, 2004	10,000
$0.36	655,000	June 23, 2008	–
$0.37	290,000	February 5, 2007	96,667
$0.375	150,000	November 17, 2004	150,000
$0.40	7,500	January 12, 2004	7,500
$0.45	150,000	August 1, 2004	150,000
$0.60	380,000	January 23, 2006	253,333
	1,642,500		667,500

As discussed in note 3, the Company has adopted the fair value method of accounting for all stock options granted to directors, officers, employees and consultants retroactively to January 1, 2002 using the Black-Scholes option pricing model using the following assumptions:

	2003	2002
Risk-free interest rate	3.33%	3.55%
Expected hold period to exercise	3 years	3 years
Volatility in the price of the Company's shares	64.0%	59.6%
Dividend yield	0%	0%

d) Warrants

As a result of various private placements of shares as noted in b) above, there are 9,059,500 warrants outstanding as at December 31, 2003 (December 31, 2002 – 3,835,140) entitling the holder to acquire an additional treasury share for each warrant held on the following terms and conditions:

Expiry Date	Number	Exercise Price
July 31, 2004	1,694,000	$0.60
June 6, 2005	4,115,000	$0.30 / $0.35
June 16, 2005	3,250,500	$0.30 / $0.35

The exercise price of the June 2005 warrants outstanding increases to $0.35 on the first anniversary of the warrants. None of the 2,141,140 warrants issued in 2001 were exercised within the prescribed 24 month period and thus all expired in 2003.

No value has been ascribed to these warrants in these financial statements.

11. Commitments

The Company is committed to an operating lease for office premises and storage facilities with remaining payments of $37,968 in 2004 and $18,839 in 2005, the year the leases expire.

The Company has issued an irrevocable letter of guarantee to the National Agency for Mineral Resources ("NAMR") in Romania totaling $800,000 USD on behalf of its wholly owned subsidiary, Sterling Resources (UK) Ltd. This amount represents the subsidiary's total anticipated Phase 2 costs of an exploration program pursuant to a concession agreement between the subsidiary and the NAMR. The term of this second phase extends from August 25, 2002 to June 26, 2004 and costs must be incurred during this time period or any extension thereof.

12. Financial Instruments

The fair market values of the Company's financial instruments, including cash and short term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their carrying values.

13. Segmented Information

The Company's activities are conducted in four geographic segments: Corporate, the United Kingdom, Romania and other international locations which include operations in France and Denmark.

	Corporate	United Kingdom	Romania	Other International	Total
December 31, 2003	$	$	$	$	$
Expenses	266,143	342,467	–	553,107	1,161,717
Other income	3,445	1,519	–	–	4,964
Net loss	262,698	340,948	–	553,107	1,156,753
Capital expenditures	–	364,841	926,016	91,675	1,382,532
Total assets	41,181	3,369,649	5,895,394	43,139	9,349,363

	Corporate	United Kingdom	Romania	Other International	Total
December 31, 2002	$	$	$	$	$
Expenses	336,976	347,056	–	–	684,032
Other income	4,509	1,083	–	–	5,592
Net loss	332,467	345,973	–	–	678,440
Capital expenditures	2,122	323,647	282,576	264,506	872,851
Total assets	382,057	3,008,225	4,976,808	504,571	8,871,661

Corporate Information

Directors

Raj K. Agrawal [1]
President
NRG Engineering Ltd.

Stewart G. Gibson
President & Chief Operating Officer
Sterling Resources Ltd.
Managing Director
Sterling Resources (UK) Ltd.

J. Richard Harris [1]
Independent Businessman

David E. Powell [1]
Independent Businessman

Robert G. Welty
Chairman & Chief Executive Officer
Sterling Resources Ltd.

[1] Audit Committee

Officers

Robert G. Welty
Chairman & Chief Executive Officer

Stewart G. Gibson
President & Chief Operating Officer

Sherry L. Cremer
Treasurer & Corporate Secretary

Corporate Headquarters

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Ernst & Young LLP

Banker

The Royal Bank of Canada

Legal Counsel

Stikeman Elliott

Registrar and Transfer Agent

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

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Stock Exchange Listing

The TSX Venture Stock Exchange
Trading Symbol: SLG

Sterling Resources (UK) Ltd.
(wholly owned)

Directors

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Aboyne, Scotland

David Miller
London, United Kingdom

Robert G. Welty
Calgary, Canada

Officers

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Chairman

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